Doug Rettew's Responses to Chairman Thom Tillis's Questions for the Record

"Fraudulent Trademarks: How they undermine the trademark system and harm American consumers and businesses"

Questions for all witnesses

1. **Can you explain to me why the presumption of irreparable harm is important in the trademark context, and can you particularly focus on why monetary damages alone aren't a sufficient remedy in this context?**

RETTEW RESPONSE:

Because the Lanham Act seeks to prevent consumer confusion/deception, to protect a trademark owner's investment in its mark and, in the case of trademark dilution, to protect the distinctive value of a famous brand, injunctions are a critical form of relief. Once a trademark owner has established a likelihood of confusion—or a probability of proving the same in the preliminary injunction context—it necessarily follows that (1) the trademark owner loses control over its hard-earned reputation and goodwill and (2) consumers will associate any negative impressions of the infringer's products or services with the trademark owner.[1] This type of harm is considered "irreparable" because reputational damage is difficult to quantify and measure, let alone fix.[2] In this regard, monetary damages are often inadequate to make the trademark owner whole. Indeed, courts have historically acknowledged that "it is virtually impossible to ascertain the precise economic consequences of intangible harms, such as damage to reputation and loss of goodwill."[3] Moreover, even if awarded, monetary damages are notoriously difficult to prove and recover (as an infringer may not be able to afford to pay a judgment).[4]

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[1] Professor J. Thomas McCarthy, 5 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30:46 (5th ed.).

[2] *Id.* at § 30:2 ("'Irreparable' is a legal term of art that means that monetary compensation would be difficult to adequately measure.") (citations omitted).

[3] *Ty, Inc. v. Jones Grp., Inc.*, 237 F.3d 891, 902 (7th Cir. 2001). *See also Uber Promotions, Inc. v. Uber Techs., Inc.*, 162 F. Supp. 3d 1253, 1276 (N.D. Fla. 2016) (Harm from reverse confusion

Without the presumption of irreparable harm, a subset of Lanham Act claimants are likely to be denied sufficient and meaningful relief. Infringers will be free to continue to confuse and deceive unwitting consumers into buying products that are not what they appear to be. All the while, trademark owners will lose consumer trust and control over the reputation and goodwill that often takes substantial time and resources to develop and build.[5]

2. In the patent context I've long had concerns about legislating a presumption of harm. The worry with patents is that you present a risk of holdup and may actually incentivize "trolling" behavior. Is the same risk present in the trademark context? In other words, can you explain why a presumption of irreparable harm for trademarks *won't* lead to that abusive behavior?

RETTEW RESPONSE:

There are several important safeguards to mitigate abusive behavior (e.g. "trolling") resulting from a presumption of irreparable harm in the trademark context. First, by its very nature, a presumption is not a categorical rule, but rather an evidentiary legal inference.[6] As

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"is usually deemed irreparable because loss of reputation, goodwill, etc. is not easy to quantify and can't readily be remedied with money damages or a post-trial injunction. . . . It seems clear that if [plaintiff] is harmed by confusion between now and the time of trial, that harm will be difficult, if not impossible, to quantify, and will thus be irreparable.") (citation omitted).

[4] *Omega Importing Corp. v. Petri-Kine Camera Co.*, 451 F.2d 1190, 1195 (2d Cir. 1971) (Reversing an order denying preliminary injunction; "While an injured plaintiff would be entitled to recover the profits on the infringing items, this is often difficult to determine; moreover, a defendant may have failed to earn profits because of the poor quality of its product or its own inefficiency. Indeed, confusion may cause purchasers to refrain from buying either product and to turn to those of other competitors. Yet to prove the loss of sales due to infringement is also notoriously difficult.") (citation omitted).

[5] *Nat'l Fin. Partners Corp. v. Paycom Software, Inc.*, No. 14 C 7424, 2015 U.S. Dist. LEXIS 74700, at *40 (N.D. Ill. June 10, 2015) ("If a company spends significant time and resources promoting its trademark, that is a strong indication that the mark has significant economic value as a source identifier. Any infringement that impedes that identifying function will cause significant harm.").

[6] *Black's Law Dictionary* 1376 (10th ed. 2014) (a presumption is a rebuttable "legal inference or assumption that a fact exists because of the known or proven existence of some other fact or group of facts.").

proposed in this context, the presumption would be rebuttable and would shift the burden to the accused infringer to come forward with some evidence that the harm is not irreparable. Second, the presumption does not *guarantee* an injunction, as irreparable harm is only one of several factors required for this relief. The movant must also establish (1) success on the merits (or the likelihood of success for a preliminary injunction or temporary restraining order), (2) that the balance of equities tips in the movant's favor, and (3) that an injunction is in the public interest.[7] To that end, the Lanham Act gives courts "the power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable."[8] Finally, in order to obtain an injunction, a trademark owner must generally show actual use of its asserted mark (among other things).[9] This is different from patents, which need not be used or practiced to be valid and asserted. This fundamental distinction between these two intellectual-property rights should guard against the "troll" problem that has arisen in the patent context.

3. Do you have any suggestions or recommendations on how Congress can legislate in this area? In other words, what would an effective remedy to these recent court decisions look like?

RETTEW RESPONSE:

Section 34 of the Lanham Act should be amended to state that a plaintiff is entitled to a *rebuttable* presumption of irreparable harm upon a showing of success on the merits of a claim under the Act, or a likelihood of success in the case of a preliminary injunction or temporary restraining order.

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[7] *Winter v. NRDC*, 555 U.S. 7, 20 (2008).

[8] 15 U.S.C. § 1116; McCarthy, *supra* note 1, at § 30:47.

[9] McCarthy, *supra* note 1, at § 19:26 ("Section 34 of the Lanham Act says that the federal courts have power to grant injunctions to prevent the violation of any right of 'the registrant of a mark registered in the Patent and Trademark Office or to prevent a violation under section 43(a).' If plaintiff has no registration or use, there is no power under § 34 to grant an injunction.") (citation omitted).

4. Can you explain why trademarks are valuable assets to businesses, particularly focusing on how critical they are to small businesses and startups?

RETTEW RESPONSE:

For new businesses, a trademark can be the company's most important asset, as it creates immediate value (and can cultivate consumer recognition and following), even before the business is profitable. Among other things, startups may use their trademarks as a security interest for business loans.

A trademark's value is directly tied to the established goodwill associated with the goods/services offered in connection with it. As companies expend resources developing goodwill through consistent promotion and delivery of quality goods/services, consumer perception improves as does the brand's value.

Because consumers associate trademarks with the owner's business, when a second comer offers subpar goods or services under an infringing mark, the owner's goodwill, and the value of its brand, suffer as a result. For example, if a deceived consumer purchases a copycat product of inferior quality, mistaking it for the trademark owner's, that consumer may forever attribute the defect to the trademark owner and turn away from its goods forever.[10]

Harm to goodwill, while potentially damaging to all companies, may be particularly harmful for small businesses and startups. Negative consumer experiences can have a greater impact on small businesses and startups whose consumer based is substantially smaller than

[10] *See e.g. Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 640 (1st Cir. 1992) ("By its very nature, trademark infringement results in irreparable harm because the attendant loss of profits, goodwill, and reputation cannot be satisfactorily quantified and, thus, the trademark owner cannot adequately be compensated. Hence, irreparable harm flows from an unlawful trademark infringement as a matter of law."); *Circuit City Stores, Inc. v. CarMax, Inc.*, 165 F.3d 1047, 1056 (6th Cir. 1999) ("no particular finding of . . . irreparable harm is necessary for injunctive relief in trademark infringement or unfair competition cases . . . irreparable injury 'ordinarily follows when a likelihood of confusion or possible risk to reputation appears' from infringement or unfair competition.").

established national/global companies. Similarly, these negative experiences may be fatal to a business in its developmental stages (before it has established a loyal customer base). Further, given their limited resources, small businesses and startups may not have the resources needed to repair goodwill and regain consumer confidence.

5. **Over the last six years we've seen a massive increase in fraudulent trademarks, leading to a cluttering of the register. Why is this cluttering of fraudulent trademarks a problem for new and expanding businesses?**

RETTEW RESPONSE:

The cluttering of the U.S. trademark register with fraudulent filings reduces the number of marks available for registration. Availability for registration often impacts which trademarks are ultimately adopted and used. While a business may oppose a blocking trademark application or petition to cancel a registration on fraud grounds, these efforts do not always come quickly or without costs. In addition to the financial strain of pursuing a contentious proceeding before the Trademark Trial and Appeal Board (TTAB), a business will also lose valuable time in the process. Waiting for a decision from the TTAB may delay the grand opening of a new business or product launch for an expanding business, resulting in lost opportunities and sales.

6. **Can you explain in more detail the impact fraudulent filers have on your company when you develop a trademark?**

RETTEW RESPONSE:

While this does not impact our law firm directly, many of our clients have expended considerable time and resources investigating conflicting marks on the U.S. Register only to find that they were fraudulently filed, and the owner cannot be reached for settlement purposes. Our clients who provide time sensitive seasonal products are left with no choice but to adopt a new brand when the fraudulent filer cannot be reached and a decision from a TTAB proceeding will take too long to obtain in time for product development cycles.

7. **What programs has the USPTO developed to address the Chinese filers and are they effective?**

RETTEW RESPONSE:

The USPTO has implemented several initiatives to improve the accuracy of the register. These efforts include (1) piloting software to identify digitally altered specimens of use; (2) increasing the number of audited post-registration maintenance filings[11]; (3) requiring all foreign-domiciled applicants, registrants and parties to TTAB proceedings to be represented by a U.S. licensed attorney[12]; (4) introducing piloting programs to allow third parties to provide evidence in examination and TTAB proceedings; (5) updating examination guidance on how to identify digitally altered specimens; and (6) creating a Special Task Force to focus on fraudulent behavior before the USPTO[13]. While these initiatives should reduce the number of fraudulent applications and registrations on the Federal Trademark Register, it appears too early to fully evaluate their impact. Many are in the piloting stages and/or went into effect as recently as last year.

8. **What are the hallmarks or tell-tale signs of fraudulent filers? OR Can you describe, in laymans terms, the hallmarks or consistent attributes of fraudulent filers?**

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[11] *See* Andrei Iancu, *Statement of Director Iancu before the United States House Subcommittee on Courts, Intellectual Property, and the Internet Committee on the Judiciary*, USPTO (May 9, 2019), https://www.uspto.gov/about-us/news-updates/statement-director-iancu-united-states-house-subcommittee-courts-intellectual.

[12] *See* USPTO, https://www.uspto.gov/trademark/laws-regulations/trademark-rule-requires-foreign-applicants-and-registrants-have-us.

[13] *See* Mary Boney Denison, *Statement of Commissioner for Trademarks Mary Boney Denison before the United States House Subcommittee on Courts, Intellectual Property, and the Internet Committee on the Judiciary*, USPTO (July 18, 2019), https://www.uspto.gov/about-us/news-updates/statement-commissioner-trademarks-mary-boney-denison-united-states-house.

RETTEW RESPONSE:

The signs of a fraudulent filing are often found in the specimens of use. Fraudulent filers submit fake, doctored, and/or computer-generated specimens to show use of a mark in U.S. commerce, which is required under U.S. law. For example, a fraudulent filer may photoshop or otherwise affix a mark onto an image of a product or product packaging that does not exist, that is offered by another entity, and/or is not sold or intended to be sold in the U.S.

9. Fraudulent trademarks don't just impacts businesses, they also harm consumers. Can any of you talk about the negative impact and harm to consumers caused by fraudulent trademarks?

RETTEW RESPONSE:

Trademarks enable consumers to quickly, easily, and efficiently differentiate between the myriad product offerings that flood modern-day store shelves, catalogs, and websites. This creates economic efficiencies by lowering search costs and fostering and incentivizing quality control.[14] By making it harder for legitimate businesses to clear and use their preferred marks, fraudulent filings impede the process and interfere with these efficiencies and consumer benefits.

Moreover, as noted above, fraudulent trademarks clutter the U.S. Trademark Register, thereby reducing the number of marks available for registration, adoption, and use. The costs of defending a business's trademark rights against a fraudulent filer may ultimately trickle down to the consumer. For businesses with limited resources, there often is no choice but to raise sales prices.

[14] *See* William M. Landes & Richard A. Posner, *The Economics of Trademark Law*, 78 TRADEMARK REP. 267, 277 (1988) ("[t]rademarks enable the consumer to economize on a real cost because he spends less time searching to get the quality he wants.").

Further, when fraudulent marks trade off established brands (which is sometimes, but not always, the case), they confuse, mislead, and deceive consumers. In some instances, this could result in public safety concerns (consider faulty tires or contaminated medication).

10. I'm concerned about how sophisticated criminal enterprises are using fraudulent trademarks to sell counterfeit products and fund their criminal organizations. Are any of you familiar with this business model and, if so, can you describe for us how this works and why this is harmful for consumers?

RETTEW RESPONSE:

Given the high margins and low penalties associated with counterfeiting (particularly when compared to traditional crimes), crime organizations have turned to counterfeit goods to fund their other activities.[15] Criminal enterprises obtain counterfeits at low prices, wholesale them to street vendors, and use their profits to fund drug and sex trafficking activities.[16] In some cases, the trafficking of counterfeit goods can be more lucrative than other criminal endeavors.[17] These counterfeiting operations have expanded beyond the traditional sale of counterfeit CDs, DVDs, and clothing/accessories into more sophisticated products like pharmaceuticals and airplane parts.[18] At a global level, some estimate the counterfeiting business to be more than $250 billion annually.

[15] *See Strange Bedfellows Can Be Dangerous*, NATIONAL CRIME PREVENTION COUNCIL, https://www.ncpc.org/resources/ip-theft/gangs-and-organized-crime/.

[16] *Id.*

[17] *See The Illicit Trafficking of Counterfeit Goods and Transnational Organized Crime*, UNITED NATIONS OFFICE ON DRUGS AND CRIME, https://www.unodc.org/documents/counterfeit/FocusSheet/Counterfeit_focussheet_EN_HIRES.pdf.

[18] *See Strange Bedfellows Can Be Dangerous*, *supra* note 15.

Counterfeit products mislead consumers into buying subpar/faulty products as opposed to genuine products from the trademark owner. This results not only in disappointed consumers, but a threat to public safety as the unsafe and ineffective products may lead to injury or death.[19]

11. Professor Bebee's research shows that 70% of applications from China are fraudulent. This is alarming. How many fraudulent applications does this translate to annually? How long do these registrations remain active?

RETTEW RESPONSE:

The USPTO estimates that applicants from China filed approximately 54,064 U.S. trademark applications in 2018.[20] Based on Professor Bebee's research, that would amount to an estimated 34,844 fraudulent applications from China in 2018. If a registrant files the necessary declaration of use (between the fifth and sixth years after registration) and subsequent renewal filings (every ten years), these fraudulent registrations can remain active forever.

12. Why is China doing this more than other countries? Are they trying to steal or IP or purposely hinder our US registry?

RETTEW RESPONSE:

Recently, there have been more U.S. trademark applications from China than any other country because of China's "cash for filing" program.[21] China's provincial governments have been paying citizens $790 for each trademark registered in the United States.[22] While some believe this program was designed to "drive growth and IP ownership" in China,[23] others suspect

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[19] *See The Illicit Trafficking of Counterfeit Goods and Transnational Organized Crime*, *supra* note 17.

[20] *See* Denison, *supra* note 13.

[21] *See Trade Relations: Sending In the Big Guns*, WORLD INTELLECTUAL PROPERTY REVIEW (Nov. 4, 2019), https://www.worldipreview.com/contributed-article/trade-relations-sending-in-the-big-guns.

[22] *See Id.*

[23] *See Id.*

China may be "attempting to 'disrupt' the U.S. [trademark] system" by making it difficult for a business to adopt its desired mark.[24]

13. As I mentioned in my opening statement, I've been proud to participate in the bipartisan, bicameral working group on fraudulent trademarks led by Chairman Nadler and Ranking Member Collins. We recently circulated a draft of our proposed legislation to stakeholders. Have any of you reviewed it and, if so, do you have any comments on what we've proposed?

RETTEW RESPONSE:

Based on the draft I reviewed, the proposed legislation is in line with what I believe would be an effective remedy for trademark owners bringing claims under the Lanham Act as further discussed in response to Question 3 (for all witnesses).

14. Are there additional noncontroversial, consensus items we should consider including in this package?

RETTEW RESPONSE:

N/A

Questions for Individual Witnesses

Doug Rettew:

1. Does a presumption of irreparable harm for Lanham Act claims unfairly benefit the plaintiff?

RETTEW RESPONSE:

No. The safeguards discussed above (in response to Question 2 for all witnesses) not only serve to mitigate abusive behavior, but also ensure a plaintiff will not unfairly benefit from a presumption of irreparable harm. Not only is the presumption rebuttable, there are number of elements that must be satisfied before an injunction is granted, including establishing success on

[24] *See* Bruce Berman, *12-Fold Increase in China's U.S. Trademark Apps; Many Are Said to Be Fraudulent and Improperly Filed*, IP CLOSEUP (Sept. 4, 2018), https://ipcloseup.com/2018/09/04/12-fold-increase-in-chinas-u-s-trademark-apps-many-are-said-to-be-fraudulent-and-improperly-filed/.

the merits, that the balance of equities tips in the movant's favor, and that an injunction is in the public interest.[25] On the other hand, absent the presumption, infringers will be allowed to confuse unwitting consumers into buying illegitimate products while plaintiffs lose consumer trust and control over their reputation and goodwill.

2. If Congress were to pass legislation that provides for a presumption of irreparable harm, what are the safeguards against abusive litigation practices?

RETTEW RESPONSE:

Please see the response to Question 2 (for all witnesses) for a discussion on the safeguards against abusive behavior if Congress provides for a presumption.

3. Is there a way to provide statutorily for a presumption of irreparable harm for trademark and false advertising claims that would not also bleed over to patent claims?

RETTEW RESPONSE:

Yes. The amendment can be made just to the Lanham Act and confined to claims arising under the Act (i.e., trademark infringement, trademark dilution, false advertising, and cybersquatting). This should not bleed over to patent claims, which are not embraced or covered by the Lanham Act.

This disparate treatment would be consistent with the different objectives served by patent law, i.e., to foster and reward invention by giving inventors an economic monopoly on their inventions, while also promoting "the disclosure of inventions to stimulate further innovation," and create a public domain of knowledge for public use.[26] Additionally, as noted in

[25] *Winter*, 555 U.S. at 20.

[26] *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) ("[P]atent law seeks to foster and reward invention; second, it promotes disclosure of inventions to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public").

my initial testimony, this is not inconsistent with the Supreme Court's decision in the *eBay* case, as it did not once mention trademarks, the Lanham Act, and the policies that underlie them—even though the majority decision specifically outlined similarities between the patent and copyright law.[27]

[27] *See eBay Inc., v. MercExchange, LLC*, 547 U.S. 388, 392-93 (2006).

Questions for Douglas A. Rettew
From Senator Mazie K. Hirono

1. Much of the discussion on fraudulent trademarks centers around Chinese applications that contain inaccurate—if not outright fraudulent—evidence of use of the mark in commerce. Showing use of a mark in commerce is already a requirement of the trademark system.

    a. Does the problem of fraudulent trademarks require new legislation or is the Patent and Trademark Office coming up short in its examination of trademark applications?

    b. I understand the Patent and Trademark Office has issued a rule requiring foreign-domiciled applicants to be represented by U.S. counsel. Are there additional steps the Patent and Trademark Office should be taking to combat the problem?

RETTEW RESPONSE:

The United States Patent and Trademark Office ("USPTO") has taken positive steps to improve the accuracy of the Federal Register. They include (1) piloting software to identify digitally altered specimens of use; (2) increasing the number of audited post-registration maintenance filings[1]; (3) requiring all foreign-domiciled applicants, registrants, and parties to Trademark Trial and Appeal Board ("TTAB") proceedings to be represented by a U.S. licensed attorney (as noted above in question 1.b.)[2]; (4) introducing piloting programs to allow third parties to provide evidence in examination and TTAB proceedings; (5) updating examination guidance on how to identify digitally altered specimens; and (6) creating a Special Task Force to focus on fraudulent behavior before the USPTO[3]. These efforts should all be useful in abating

[1] *See* Andrei Iancu, *Statement of Director Iancu before the United States House Subcommittee on Courts, Intellectual Property, and the Internet Committee on the Judiciary*, USPTO (May 9, 2019), https://www.uspto.gov/about-us/news-updates/statement-director-iancu-united-states-house-subcommittee-courts-intellectual.

[2] *See* USPTO, https://www.uspto.gov/trademark/laws-regulations/trademark-rule-requires-foreign-applicants-and-registrants-have-us.

[3] *See* Mary Boney Denison, *Statement of Commissioner for Trademarks Mary Boney Denison before the United States House Subcommittee on Courts, Intellectual Property, and the Internet*

the problem of fraudulent trademark filings. But the USPTO can only act within the limits of its authority, so additional statutory tools are needed, including the creation of new proceedings to allow for the efficient and speedy expungement of fraudulent filings (discussed below).

2. A number of people have called for the creation of new proceedings in the Patent and Trademark Office to allow for the cheaper, easier cancellation of fraudulent trademarks, including an expungement proceeding and an ex parte reexamination proceeding.

   Should Congress go down the path of creating these reexamination proceedings, what potential unintended consequences may be associated with these proceedings?

RETTEW RESPONSE:

Yes; Congress should create reexamination proceedings to allow for the more efficient and expeditious cancellation of fraudulent trademark applications and registrations. Given the surge of such filings, this would benefit large and small businesses alike and would protect the integrity of the U.S. Trademark Register. That said, procedural safeguards must be established to avoid the unintended consequence of jeopardizing legitimate filings or giving trolls a tool to hold up or interfere with such filings.

3. The Patent and Trademark Office has taken steps to address the problem of fraudulent trademarks, including its new rule requiring foreign-domiciled applicants to be represented by U.S. counsel. I have also seen reports that the Chinese government—including the provincial government in Shenzhen—has altered its incentive program in a way that may lead to a decrease in trademark applications from China.

   a. Is there evidence that these changes might slow the tide of fraudulent trademark applications?

RETTEW RESPONSE:

While it's too early to tell for certain, one would expect that the steps taken by the USPTO will lead to a decrease in trademark applications from China, including fraudulent filings. But I have not seen any empirical evidence of this.

Committee on the Judiciary, USPTO (July 18, 2019), https://www.uspto.gov/about-us/news-updates/statement-commissioner-trademarks-mary-boney-denison-united-states-house.

b. If the changes made by the Patent and Trademark Office and Chinese government are effective—and we see a real decline in the number of applications for fraudulent trademarks—is there a need for a permanent legislative fix to combat the problem or is it something that should sunset after a certain period of time sufficient to clean up the trademark registry?

RETTEW RESPONSE:

Even if the USPTO's changes are broadly effective (which should be the case), its resources are necessarily limited and it will thus not be able to stop or prevent every fraudulent filing. In those instances, accelerated expungement/cancellations are needed to fill the void and provide legitimate filers with a quick, efficient, and effective remedy to clear the way for their marks.

4. Amazon recently launched an IP Accelerator program that connects businesses with a select group of IP law firms that the business can work with to get trademark protection. If the business works with one of these firms, it is able to get earlier access to Amazon's Brand Registry, and all the benefits it provides.

   a. Is your firm part of Amazon's IP Accelerator program?

   b. What is your understanding of how Amazon selects firms to be part of its IP Accelerator Program?

RETTEW RESPONSE:

No, our law firm is not part of Amazon's IP Accelerator program. Amazon notes that its "IP Accelerator connects businesses with a curated network of trusted IP law firms that provide high quality trademark registration services to help brands secure a trademark, at competitive rates."[4] According to an Amazon blog post, Amazon considers "experience, expertise, and customer service" when selecting IP firms to participate in the program.[5] Each firm must also

[4] *See What is Amazon IP Accelerator?*, Amazon, https://brandservices.amazon.com/ipaccelerator.

[5] *See* Amazon Intellectual Property Accelerator, THE AMAZON BLOG, Amazon (October 1, 2019), https://blog.aboutamazon.com/policy/amazon-intellectual-property-accelerator?ld=NSGoogle_null.

agree to competitive pre-negotiated rates for trademark-related services, including trademark searches and filing applications.[6]

[6] *Id.*